



Legislative Fiscal Bureau

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August 14, 2014

TO: Senator Jon Erpenbach
Room 104 South, State Capitol

FROM: Sam Austin, Fiscal Analyst

SUBJECT: Full Medicaid Expansion under the ACA

At your request, this memorandum provides information on a state policy option to increase BadgerCare Plus income eligibility standards for adults to 133% of the federal poverty level (FPL) under provisions of the federal Patient Protection and Affordable Care Act (ACA). This option is commonly referred to as a "full expansion" of Medicaid program eligibility for nondisabled, non-elderly adults.

Wisconsin's current BadgerCare Plus income eligibility standard for adults equals 100% of the FPL. The following table compares annual household income at 100% and 133% of the 2014 FPL.

| <u>Family Size</u> | <u>100%</u> | <u>133%</u> |
|--------------------|-------------|-------------|
| 1 | \$11,670 | \$15,521 |
| 2 | 15,730 | 20,921 |
| 3 | 19,790 | 26,321 |
| 4 | 23,850 | 31,721 |
| 5 | 27,910 | 37,120 |
| 6 | 31,970 | 42,520 |

This memorandum addresses your two questions:

- Compared to current law, what would the fiscal effect have been in the 2013-15 biennium if Wisconsin had implemented a full expansion, effective April 1, 2014?
- Compared to current law, what would the fiscal effect be if Wisconsin implements a full expansion as part of the 2015-17 biennial budget act, effective on January 1, 2016?

Background

The ACA made multiple changes to the private insurance market in the United States and to state Medicaid programs. As passed in 2010, the ACA would have required state Medicaid

programs to cover all adults under the age of 65, in families with household incomes up to 133% of the FPL, beginning January 1, 2014. [For the purposes of determining Medicaid eligibility under the ACA, household income equals modified adjusted gross income, plus a 5% income disregard, effectively setting the income standard for a full expansion at 138% of the FPL.]

In Wisconsin, the current percentage of most Medicaid benefit costs paid for by the federal government (the federal medical assistance percentage, or FMAP) is approximately 59%. The ACA provides enhanced federal matching funds for any "newly-eligible" group that did not qualify for full Medicaid coverage prior to December 1, 2009. For newly-eligible individuals, the federal government funds 100% of benefit costs in calendar years 2014 through 2016, 95% in 2017, 94% in 2018, 93% in 2019, and 90% in 2020 and subsequent years.

The requirement that states expand Medicaid eligibility standards was one subject of the U.S. Supreme Court decision in *National Federation of Independent Business et al v. Sebelius*. The Court found the mandatory expansion of Medicaid coverage unconstitutional. As a result, each state may decide whether to expand its Medicaid program to the levels described in the ACA, and claim the enhanced federal matching funds for services provided to newly-eligible individuals.

Medicaid income eligibility standards for nonelderly, nondisabled adults vary widely among states. In Wisconsin, prior to the 2013-15 biennial budget, parents and caretaker relatives (hereafter, "parents") with household income under 200% of the FPL qualified for full BadgerCare Plus coverage, while adults without dependent children (hereafter, "childless adults") were not eligible for Medicaid coverage, unless they had enrolled in the BadgerCare Plus Core Plan for childless adults with income under 200% of the FPL, prior to enrollment in that program being capped in September, 2009. For that reason, under a full Medicaid expansion, services provided to parents in Wisconsin would be funded with the standard FMAP of approximately 59%, and services for childless adults would be funded with the enhanced FMAP for newly-eligible individuals.

The Legislature considered the issue of Medicaid eligibility standards for nondisabled, non-elderly adults as part of its 2013-15 biennial budget deliberations, and adopted the Governor's recommendations to establish the standard at 100% of the FPL, effective January 1, 2014. This had the effect of reducing the eligibility standard from 200% to 100% of the FPL for parents, while providing eligibility for all childless adults with income up to 100% of the FPL. This policy decision is commonly referred to as a "partial expansion" of the Medicaid program. As the enhanced FMAP for newly-eligible populations is only available to states that implement a full expansion, federal funds currently support approximately 59% of the cost of most services provided to childless adults enrolled in BadgerCare Plus.

In response to the difficulties experienced by individuals attempting to purchase subsidized private coverage through the federal health insurance marketplace in the fall of 2013, the Legislature delayed the Medicaid eligibility changes from January 1, 2014, to April 1, 2014, under 2013 Act 116. As a result, parents with incomes between 100% and 200% of the FPL did not lose Medicaid eligibility, and childless adults with income below 100% of the FPL did not gain Medicaid eligibility, until April, 2014.

Full Expansion under 2013 Act 20

You asked what the difference in spending would have been, compared to current law, if Wisconsin had implemented a full Medicaid expansion, effective April 1, 2014. Table 1 shows the estimated difference to current law that would have occurred if Wisconsin had implemented a full expansion, and the estimated average monthly adult enrollment under each scenario. The estimated total biennial spending for parents and childless adults in BadgerCare Plus would have been \$355 million higher over the biennium, which is the net effect of a decrease in state general purpose revenue (GPR) spending of \$206 million, and an increase in federal spending (FED) of \$561 million. The estimated average monthly enrollment in Medicaid for parents and childless adults would have been 87,000 higher in fiscal year 2014-15 under a full expansion. The attachment to this memorandum provides a summary of the assumptions used to prepare these estimates.

TABLE 1
Comparison of Current Law and Full Expansion Scenarios
for Non-pregnant, Non-disabled Adults
2013-15 Biennium

Estimated Benefit Expenditures (\$ in Millions)

| | <u>2013-14</u> | <u>2014-15</u> | <u>Biennium</u> |
|------------------|----------------|----------------|-----------------|
| GPR | | | |
| Current Law | \$338 | \$477 | \$815 |
| Full Expansion | <u>316</u> | <u>293</u> | <u>609</u> |
| Difference | -\$22 | -\$184 | -\$206 |
| FED | | | |
| Current Law | \$493 | \$673 | \$1,166 |
| Full Expansion | <u>558</u> | <u>1,169</u> | <u>1,727</u> |
| Difference | \$65 | \$496 | \$561 |
| All Funds | | | |
| Current Law | \$831 | \$1,150 | \$1,981 |
| Full Expansion | <u>874</u> | <u>1,462</u> | <u>2,336</u> |
| Difference | \$43 | \$312 | \$355 |

Average Monthly Enrollment

| | <u>2013-14</u> | <u>2014-15</u> |
|----------------|----------------|----------------|
| Current Law | 268,000 | 316,000 |
| Full Expansion | <u>287,000</u> | <u>403,000</u> |
| Difference | 19,000 | 87,000 |

The GPR savings shown in Table 1 would have been generated by a substitution of federal for state spending for childless adults covered under current law. The estimated annual cost of covering a childless adult is approximately \$4,600 (with the state paying \$1,886 of that amount under current law). Under a full expansion, the federal government would have paid the entire cost of benefits provided to childless adults in Wisconsin through calendar year 2016, and the state would have avoided the GPR costs currently incurred to cover that group.

The GPR savings related to currently-covered childless adults are partially offset by the increased state cost of covering additional parents with household income between 100% and 133% of the FPL at the standard FMAP. As all parents in Wisconsin receive the standard federal matching rate of approximately 59% of costs under either a full or partial expansion, any additional parents with incomes between 100% and 133% of the FPL that would gain BadgerCare Plus coverage under a full expansion would increase state and federal costs.

Comparison to May, 2013 Estimate. In May, 2013, this office prepared a paper for the Joint Committee on Finance on the Governor's budget proposal to change BadgerCare Plus eligibility standards. At that time, it was estimated that the partial expansion would have cost \$119 million GPR more in the 2013-15 biennium than a full expansion, assuming a January 1, 2014, effective date. The GPR savings estimate presented in Table 1 represents a significant increase over the estimate from that budget paper. The difference is primarily due to three developments: (a) higher-than-expected enrollment by childless adults; (b) lower-than-expected enrollment by parents; and (c) other changes to benefit costs and federal matching rates. In addition, the May, 2013, analysis reflected a January 1, 2014, effective date, rather than the delayed effective date of April 1, 2014.

Higher-than-expected enrollment by childless adults is the primary factor in the differences in the GPR savings estimates. Under the Act 20 estimate, it was projected that monthly childless adult enrollment would average approximately 98,600 in fiscal year 2014-15 under current law. Childless adult enrollment in BadgerCare Plus has far exceeded budget projections, with April, 2014, enrollment already surpassing the 2014-15 average monthly enrollment estimate. The current cost estimate is based on a monthly average enrollment of approximately 129,000 childless adults in 2014-15, with a June, 2015, enrollment of approximately 135,000. This higher actual childless adult enrollment has led to higher estimated savings under a full expansion, compared to the Act 20 estimate.

Second, enrollment by parents with incomes less than 100% of the FPL has been lower than projected under Act 20 and subsequent enrollment estimates. For instance, in the analysis for 2013 Act 116 that delayed the eligibility changes until April, 2014, enrollment of parents in June, 2014, was projected to be 174,600. Actual enrollment in that month equaled 169,100. This lower enrollment of parents under the poverty level suggests that fewer adults with dependent children with incomes between 100% and 133% of the FPL would have remained enrolled under a full Medicaid expansion than was assumed under the budget. The standard FMAP would apply to these parents under a full expansion, and the state would fund approximately 41% of the cost of services for this group. This lower caseload assumption reduces the estimated state costs under a full expansion, compared to the Act 20 estimate.

Finally, per-member benefit costs, and the standard federal matching rate (as determined by a federal formula based on state and national per capita income) have changed from the May, 2013 assumptions. In total, these changes increased the amount of GPR savings that would have been

generated by a full expansion, compared to the Act 20 estimate.

Full Expansion Enacted as Part of the 2015-17 Budget

You also asked what the fiscal effect would be of enacting a full Medicaid expansion as part of the 2015-17 biennial budget act. Table 2 shows the current estimated effect of a full expansion for the 2015-17 biennium, compared to current law, under low- and high-enrollment scenarios.

TABLE 2
Comparison of Current Law and Full Expansion Scenarios
Non-pregnant, Non-disabled Adults
2015-17 Biennium
Benefit Expenditures (\$ in Millions)

Low Enrollment Scenario

| | <u>2015-16</u> | <u>2016-17</u> | <u>Biennium</u> |
|------------------|----------------|----------------|-----------------|
| GPR | | | |
| Current Law | \$473 | \$492 | \$965 |
| Full Expansion | <u>389</u> | <u>314</u> | <u>704</u> |
| Difference | -\$84 | -\$178 | -\$261 |
| FED | | | |
| Current Law | \$661 | \$687 | \$1,348 |
| Full Expansion | <u>809</u> | <u>1,083</u> | <u>1,892</u> |
| Difference | \$149 | \$396 | \$544 |
| All Funds | | | |
| Current Law | \$862 | \$807 | \$1,669 |
| Full Expansion | <u>306</u> | <u>137</u> | <u>442</u> |
| Difference | \$65 | \$218 | \$283 |

High Enrollment Scenario

| | <u>2015-16</u> | <u>2016-17</u> | <u>Biennium</u> |
|------------------|----------------|----------------|-----------------|
| GPR | | | |
| Current Law | \$520 | \$548 | \$1,069 |
| Full Expansion | <u>420</u> | <u>334</u> | <u>754</u> |
| Difference | -\$101 | -\$214 | -\$315 |
| FED | | | |
| Current Law | \$727 | \$766 | \$1,492 |
| Full Expansion | <u>919</u> | <u>1,286</u> | <u>2,205</u> |
| Difference | \$192 | \$520 | \$712 |
| All Funds | | | |
| Current Law | \$940 | \$882 | \$1,823 |
| Full Expansion | <u>319</u> | <u>120</u> | <u>439</u> |
| Difference | \$91 | \$306 | \$397 |

To emphasize the uncertainty inherent in projecting future Medicaid expenditures, particularly given the early stages of enrollment of childless adults under current law, the table presents a range of estimated fiscal effects. The actual effect of any future full expansion proposal would depend on actual enrollment and cost trends. Under the low enrollment scenario, childless adult enrollment slows more quickly in the second half of this calendar year than currently projected, and per-member costs for childless adults are lower than currently projected; under the high enrollment scenario, enrollment of childless adults continues at a higher pace through state fiscal year 2015-16 than currently projected, at the same per-member cost. The attachment provides a summary of the assumptions used in producing these estimates.

The figures shown in Table 2 assume that any full expansion under the 2015-17 biennial budget would take effect on January 1, 2016, to account for time required for DHS to modify agreements with the federal Centers for Medicare and Medicaid Services and make changes to state information systems. In addition, a January 1, 2016, effective date would align the timing of the Medicaid eligibility change with the end of the 2015 plan year for private coverage purchased through the ACA marketplace.

The same reasons for the GPR spending decrease and federal spending increase described for the 2013-15 hypothetical expansion apply to the 2015-17 scenario. A full expansion would generate savings compared to current law by substituting federal for state spending through the enhanced federal matching rate for childless adults, which would be partially offset by the cost of covering additional parents at the standard rate.

Due to the uncertainty regarding program enrollment and cost growth in the future, this memorandum only analyzes the effect of a full expansion for the 2015-17 biennium. The GPR savings of a full expansion relative to current law are expected to decline in later years due the increasing state share of the cost of covering childless adults under a full expansion. The enhanced FMAP equals 100% in calendar years 2014 through 2016, 95% in 2017, 94% in 2018, 93% in 2019, and 90% in 2020 and subsequent years. However, even in years where the state is responsible for a portion of the cost of childless adults, a full expansion would result in annual GPR savings and increased federal costs compared to current law.

I hope you find this information helpful. Please contact me with any further questions.

SA/sas
Attachment

ATTACHMENT

Assumptions

Fiscal Effect in 2013-15 Biennium. The projections for the fiscal effect of a hypothetical full expansion under 2013 Act 20 depend on the following assumptions:

Enrollment. The current law scenario uses actual enrollment data for fiscal year 2013-14, and projected enrollment for fiscal year 2014-15 that the Department of Health Services used in its June, 2014, report to the Joint Finance Committee on the fiscal status of the Medicaid program. These enrollment figures assume that childless adult enrollment will reach 135,000 by the end of the biennium.

The full expansion scenario uses the same enrollment assumptions as the current law scenario for all adults under 100% of the FPL. For adults between 100% and 133% of the FPL who would qualify for Medicaid under a full expansion, the following enrollment assumptions are used: (a) for parents, modified projections from April, 2013 through June, 2015 to reflect lower-than-expected enrollment by parents with incomes under 100% of the FPL; and (b) for childless adults, modified projections from April, 2013 through June, 2015 to reflect the higher-than-projected enrollment by childless adults with incomes under 100% of the FPL.

To facilitate a comparison of the scenarios, it is assumed that in both scenarios the Legislature would have delayed the implementation of any Act 20 changes until April, 2014, given the enrollment difficulties experienced in the federal marketplace in the fall of 2013. It could be argued that the Legislature would not have acted to delay enrollment of childless adults under a full expansion scenario, as their benefits would have generated no state costs over that period. Implementing a full expansion on January 1, 2014, would have increased the GPR savings amounts shown in the memorandum.

Benefit Costs. The analysis uses initial per-member per-month (PMPM) benefit cost of \$383 per childless adult, and \$245 per parent. These amounts are based on per-member payments DHS makes to health maintenance organizations to cover BadgerCare Plus enrollees. This PMPM amount increases by 3% on January 1, 2015, consistent with past program cost growth assumptions (the full 3% increase is applied in January, rather than as a monthly incremental increase).

FMAP. For both the current law and the full expansion scenarios, parents are assumed to receive the standard FMAP (59.74% in federal fiscal year (FFY) 2012-13, 59.06% in FFY 2013-14, and 58.27% in FFY 2014-15). Under the current law scenario, childless adults receive the standard FMAP that also applies to parents; under the full expansion scenario, childless adults would receive the enhanced FMAP of 100% beginning in April, 2014.

Fiscal Effect in 2015-17 Biennium. The projections for the fiscal effect of a potential full expansion under the 2015-17 biennial budget depend on the following assumptions.

Enrollment. For parents, both the low- and high-enrollment scenarios assume that enrollment grows at a 1% annual rate, consistent with past program enrollment growth assumptions, beginning at the levels projected in July, 2015, under the 2013-15 expansion scenario described above.

The low-enrollment scenario assumes that enrollment will level off more quickly in the current fiscal year than currently projected by DHS, and continue at a 1% annual enrollment growth over the 2015-17 biennium. For the high-enrollment scenario, the model assumes that enrollment among childless adults will grow more rapidly than projected through state fiscal year 2015-16, with growth continuing at the 1% annual rate in fiscal year 2016-17.

Benefit Costs. For parents, and for childless adults under the high-enrollment scenario, the PMPM cost assumption is the same as for the 2013-15 estimate: initial PMPM costs of \$245 for parents and \$383 for childless adults, with a 3% increase in January of each year.

For childless adults in the low-enrollment scenario, the initial PMPM is assumed to be \$345 (90% of that amount in the high-enrollment scenario), with the 3% annual increase applied thereafter.

FMAP. The full expansion scenario uses the same standard FMAPs as above, with the 58.27% FMAP used for FFY 2015-16 and FFY 2016-17. For the enhanced FMAP for childless adults, the ACA-specified amounts are 100% in calendar years 2014 through 2016, and 95% in 2017.